

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 IO-13 L-03 H-01  
AID-05 CIAE-00 COME-00 EB-08 FRB-03 INR-07  
NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 LAB-04  
SIL-01 OMB-01 NSC-05 SS-15 STR-06 CEA-01 PA-01  
PRS-01 /111 W  
-----054665 191015Z /20

R 190833Z JAN 78  
FM AMEMBASSY MANILA  
TO SECSTATE WASHDC 541  
INFO AMEMBASSY BRUSSELS

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR BRADFORD

FOR USEEC

E. O. 11652: NA  
TAGS: EAID, EFIN  
SUBJECT: COOPERATION WITH EUROPEAN COMMUNITY

1. IN DECEMBER 1976, ADB BOARD OF DIRECTORS APPROVED A  
COOPERATIVE ARRANGEMENT WITH EUROPEAN COMMUNITY (EC)  
WHEREIN EC ALLOCATED A GRANT OF \$1.875 MILLION EQUIVALENT  
FROM ITS 1976 AID BUDGET TO FINANCE A BANK-EXECUTED  
TECHNICAL ASSISTANCE (TA) PROGRAM IN SOME OF  
BANK'S DMCS. EIGHT TA PROJECTS TOTALLING \$1.688 MILLION  
WERE APPROVED BY BOARD AND ARE NOW IN VARIOUS STAGES OF  
IMPLEMENTATION. UNDER THE ARRANGEMENT, PRIORITY WAS GIVEN  
IN FINANCING CONSULTING SERVICES CONTRACTS TO CONSULTANTS  
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FROM ASIAN DMCS AND EC COUNTRIES. FINANCING OF SUCH  
SERVICES FROM OTHER MEMBERS COUNTRIES OF BANK WAS NOT  
EXCLUDED IN EXCEPTIONAL CASES, BUT REQUIRED SPECIFIC  
JUSTIFICATION IN EACH SUCH CASE.

2. FROM FUNDS IN ITS 1977 AID BUDGET, EC HAS AGREED  
TO ALLOCATE \$9.97 MILLION EQUIVALENT OF GRANT FUNDS

FOR CO-FINANCING OF FIVE SPECIFIC BANK LOAN PROJECTS. BANK LOANS FOR TWO OF THESE PROJECTS HAVE ALREADY BEEN APPROVED (CHASMA RIGHT BANK IRRIGATION, PAKISTAN, AND FERTILIZER AND AGRO-CHEMICALS STORAGE, AFGHANISTAN) AND A LOAN PROPOSAL FOR A THIRD PROJECT (SECOND FISHERIES, BURMA) HAS BEEN CIRCULATED TO BOARD. BANK LOAN PROPOSALS FOR TWO REMAINING PROJECTS (SOUTHEAST SULAWESI TRANS-MIGRATION AREA DEVELOPMENT, INDONESIA AND INLAND FISHERIES, THAILAND) ARE EXPECTED TO BE CONSIDERED BY BOARD IN FIRST HALF OF 1978. BANK PROPOSES TO CHARGE EC A LUMP SUM OF ONE PERCENT OF TOTAL PROJECT FINANCING PROVIDED BY EC FOR SUCH PROJECTS SINCE BANK WILL BE RESPONSIBLE FOR ADMINISTRATION OF EC FINANCING. IN ADDITION TO ABOVE CO-FINANCING OF LOAN PROJECTS, EC HAS AGREED TO ALLOCATE \$448,000 EQUIVALENT FROM ITS 1977 AID BUDGET FOR FINANCING OF BANK-EXECUTED TA PROJECTS.

3. FOR PROPOSED EC-FINANCING OF GOODS AND SERVICES UNDER LOAN FINANCING, PROCUREMENT WOULD BE LIMITED IN PRINCIPLE TO (A) EC MEMBER COUNTRIES, (B) ALL DMCS OF BANK, AND (C) IN EXCEPTIONAL CIRCUMSTANCE ARISING FROM TECHNICAL AND SPECIAL CONSIDERATIONS RELATED TO PROJECT REQUIREMENTS AND WITH EC APPROVAL, OTHER COUNTRIES. FOR EXECUTION OF EC-FINANCED TA BY BANK, EC HAS PROPOSED THAT ELIGIBLE SOURCES OF CONSULTANTS BE LIMITED ONLY TO EC MEMBER COUNTRIES AND DMCS, IN CONTRAST TO LIMITED OFFICIAL USE

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PREVIOUS ARRANGEMENT THAT PERMITTED USE OF CONSULTANTS FROM OTHER MEMBER COUNTRIES IN EXCEPTIONAL CASES. SINCE BANK'S NORMAL PROCEDURES FOR SELECTION OF CONSULTANTS WILL BE FOLLOWED, BANK WOULD ARRANGE FOR ALTERNATIVE FINANCING OF THE TA PROJECT CONCERNED IN EVENT CONSULTANTS ARE SELECTED FROM OUTSIDE THESE ELIGIBLE SOURCES. IN SUCH A CASE, ANOTHER TA PROJECT MIGHT BE SUBSTITUTED FOR EC FINANCING.

4. USADB COMMENT: WE NOTE WITH REGRET FURTHER TIGHTENING OF PROCEDURES PROPOSED AT EC REQUEST FOR SELECTION OF CONSULTANTS UNDER TA PROJECTS AS WELL AS THE LIMITATIONS PROPOSED ON PROCUREMENT FOR EC GRANT PORTION OF LOAN PROJECTS. ISSUE IS REALLY WHETHER BANK SHOULD ACCEDE TO EC DEMANDS IN ORDER TO CONTINUE TO HAVE ACCESS TO EC FUNDS.

5. DOCUMENT DOES NOT BRING OUT FACT THAT EC FINANCING FOR CHASMA RIGHT BANK IRRIGATION PROJECT IS ENTIRELY LOCAL COST FINANCING, WHICH DOES NOT RAISE PROCUREMENT ISSUE. OTHER FOUR PROJECTS INVOLVE PARALLEL FINANCING

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PRS-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15  
STR-06 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03  
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /111 W  
-----055163 191013Z /21

R 190833Z JAN 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 542

INFO AMEMBASSY BRUSSELS

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AND BANK HAS SELECTED EASILY IDENTIFIABLE AND  
SEPARABLE PORTIONS TO BE FINANCED BY EC. ALSO, MORE  
THAN 50 PERCENT OF THESE FOUR PROJECTS WILL INVOLVE  
LOCAL COST FINANCING BY EC. THUS, ROUGHLY 75 PERCENT  
OF EC FINANCING OF THE FIVE LOAN PROJECTS WILL BE  
FOR LOCAL COSTS.

6. IT MAY BE NOTED THAT BANK HAS ENGAGED IN CO-FINANCING  
PROJECTS IN PAST WHERE TIED CONTRIBUTIONS WERE INVOLVED.  
IN PUSRI FERTILIZER PROJECT (INDONESIA), U.S. (AND  
JAPANESE) REQUIRED THEIR CONTRIBUTIONS TO BE TIED.  
SIMILAR ARRANGEMENTS HAVE BEEN INVOLVED IN ASHUGANJ  
FERTILIZER PROJECT (BANGLADESH). ON BILATERAL BASIS,  
CANADA HAS EXPRESSED INTEREST IN CO-FINANCING  
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WITH ADB WHICH WOULD ALSO INVOLVE TIED PROCUREMENT. BANK PRESUMES THAT IBRD HAS SIMILAR PROCUREMENT ARRANGEMENT WITH EC, AND IS SEEKING CONFIRMATION AT U.S. ED'S REQUEST.

7. USADB CLEARLY FINDS THESE DEVELOPMENTS IN PROCUREMENT FIELD DISTASTEFUL AS WE UNDERSTAND DID BANK STAFF WHICH REPORTEDLY ARGUED STRENUOUSLY BUT FRUITLESSLY WITH EUROPEAN COMMUNITY NEGOTIATORS. BANK HAS POINTE OUT TO US THAT (A) EC WILL PLACE FUNDS IN PROJECTS ALREADY SELECTED BY THE BANK, THUS EXTENDING THE AVAILABLE LENDING OF THE BANK; (B) THAT IN PRACTICE, THE BULK OF THE FUNDS WILL BE DEVOTED TO LOCAL SOURCE FINANCING AND THUS NOT BE AVAILABLE FOR INTERNATIONAL COMPETITIVE BIDDING; AND (C) THAT BY RESTRICTING EC PROCUREMENT TO SEPARABLE PORTIONS OF THE PROJECTS, SUCH PROCUREMENT WOULD HAVE VERY LIMITED LEVERAGE ON THE REMAINING PROCUREMENT FINANCED BY ADB. FINALLY, USADB BELIEVES IT WOULD BE IN A VERY POOR TACTICAL POSITION TO PROTEST IN VIEW OF APPARENT PAST U.S. REQUIREMENT THAT ITS OWN CO-FINANCING ACTIVITY BE TIED TO U.S. PROCUREMENT. WE ALSO ASSUME THAT IF THE U.S. WERE TO CONTRIBUTE TO THE BANK'S TECHNICAL ASSISTANCE SPECIAL FUND THROUGH AN AID APPROPRIATION, WE AGAIN WOULD BE REQUIRED TO INSIST THAT SERVICE CONTRACTS PAID FOR BY THAT CONTRIBUTION BE TIED TO U.S. SOURCES. IN VIEW THESE CONSIDERATIONS, WE SEE NO ALTERNATIVE BUT TO AGREE TO PROPOSAL, PARTICULARLY SINCE BENEFICIARIES ARE AMONG THE BANK'S LOW INCOME DMCS.

8. WE WOULD PLAN TO SAY THAT WE REGARD IT AS UNFORTUNATE THAT EC INSISTED ON THIS REQUIREMENT; THAT TIED CO-FINANCING ARRANGEMENTS SHOULD BE LIMITED TO WHERE IT CAN BE SHOWN THAT THE USE OF THIS PROCEDURE WOULD NOT ERODE DIRECTLY OR INDIRECTLY THE LIMITED OFFICIAL USE

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UNTIED PROCUREMENT CALLED FOR UNDER THE ADB'S OPERATING PROCEDURE.

9. ADB DOC. R5-78 ON ABOVE SUBJECT WAS POUCHED JANUARY 17 AND WILL BE CONSIDERED BY BOARD OF DIRECTORS ON FEBRUARY 7. NAC GUIDANCE REQUESTED. EDMOND

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## Message Attributes

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**Disposition Approved on Date:**  
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**Document Unique ID:** 00  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014